

Message Text

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C O N F I D E N T I A L SEOUL 3738

EO 11652: GDS

TAGS: EFIN, IBRD, KS

SUBJECT: U.S. POSITION AT KOREAN CONSULTATIVE GROUP MEETING

REF: A. SEOUL 3098 B. SEOUL 2528, C. SEOUL A-96,
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HONG KONG FOR REGFINATT

SUMMARY: CHIEF ISSUES AT JULY 2-3 CG MEETING LIKELY BE SHORT-TERM NEED FOR FOREIGN FINANCING AND APPROPRIATENESS OF MONETARY-FISCAL POLICIES. RECOMMEND WE AGREE WITH IBRD THAT KOREA IS WORTHY CANDIDATE FOR SUBSTANTIAL FOREIGN LENDING IN BOTH SHORT AND LONG TERM, WHILE POINTING OUR DISADVANTAGES OF OVER-STIMULATIVE DOMESTIC POLICIES. SUGGEST WE RECOMMEND THAT NEXT IBRD REPORT AND CG CONCENTRATE ON LONGER-TERM CAPITAL NEEDS AND DEBT-SERVICING CAPACITY. WASHINGTON MAY WISH RAISE WITH IBRD QUESTION OF POSSIBLE CG ATTENDANCE BY IRAN AND SAUDI ARABIA. END SUMMARY

1. FOLLOWING ARE OUR CURRENT THOUGHTS ON CHIEF ISSUES AND RECOMMENDED U.S. POSITION AT KOREAN CONSULTATIVE GROUP (CG) MEETING SCHEDULED FOR JULY 2-3 IN PARIS.
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WE WILL COMMENT ON IBRD ECONOMIC REPORT WHEN RECEIVED (PLEASE EXPEDITE COPIES) AND PLAN SUBMIT OVERALL BALANCE OF PAYMENTS ANALYSIS (SIMILAR TO REF B) IN MID-JUNE WHEN LATEST DATA BECOME AVAILABLE.

2. NEED FOR FOREIGN FINANCING: PER REF A, IBRD REPORT WILL CONCENTRATE ON DIFFICULT 1975 BOP SITUATION, WHILE EXPRESSING CONFIDENCE IN LONGER-TERM GROWTH PROSPECTS. KOREANS CAN BE EXPECTED TO STRESS OPTIMISTIC ASPECTS, E.G. CURRENTLY IMPROVING IMPORT AND EXPORT TRENDS. WE SEE NO ADVANTAGE IN ARGUING IN PUBLIC OVER BEST ESTIMATE OF 1975 BOP DEFICIT OR IN STRESSING SERIOUSNESS OF SHORT-TERM FX POSITION, SINCE THIS COULD REDUCE CONFIDENCE AND FINANCING POSSIBILITIES. RATHER RECOMMEND WE AGREE WITH BANK RE FAVORABLE LONG-TERM PROSPECTS AND KOREAN NEED FOR SUBSTANTIAL FOREIGN FINANCING TO MEET BOTH SHORT AND LONG-TERM NEEDS. STATEMENT RE SHORT-TERM NEEDS SHOULD NOTE IMPORTANCE TO KOREA OF IMF OIL FACILITY AND IBRD PROGRAM LENDING, WHICH MAY HAVE TO BE REPEATED IN 1976, PARTICULARLY IF PRICE OF OIL INCREASES. LONGER-TERM NEEDS WILL BE CLARIFIED DURING NEXT 15 MONTHS THROUGH PLANNING OF FOURTH PLAN, 1977-81, AND SHOULD BE SUBJECT OF NEXT IBRD REPORT AND CG MEETING. U.S. STATEMENT RE ASSISTANCE SHOULD REFER TO PL 480 PROSPECTS AND OUR ABILITY HELP MEET COMMERCIAL FINANCING NEEDS THROUGH EXIM LOANS, CCC CREDITS AND OPIC AND AID GUARANTEES.

3. APPROPRIATENESS OF MONETARY-FISCAL POLICIES: IBRD AND IMF CAN BE EXPECTED TO POINT OUT ADVANTAGES OF LESS STIMULATIVE MONETARY AND FISCAL POLICIES WITH RESPECT TO AVOIDING IMPORT RESTRICTIONS, REDUCING RATE OF INFLATION AND ELIMINATING UNECONOMIC SUBSIDIES ON GRAINS AND FERTILIZER. WE SHOULD SUPPORT SUCH COMMENTS, KEYING STATEMENT TO IBRD REPORT (WHEN AVAILABLE), TO PLANNED IMF MID-YEAR REVIEW OF STANDBY AGREEMENT AND TO OPPORTUNITY TO UNDERTAKE MEDIUM-TERM STRUCTURAL AND FINANCIAL REFORMS THROUGH USE OF NEW IMF EXTENDED FUND FACILITY. (DUE TO ABSENCE OF ROKG OFFICIALS, FIRST IMF VISIT TO DISCUSS CONFIDENTIAL

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THREE-YEAR EXTENDED FACILITY HAS BEEN POSTPONED TO LATE JULY AND WILL PROBABLY BE COMBINED WITH MID-YEAR REVIEW VISIT.)

4. DEBT SERVICE EXPECTATIONS: NEITHER IBRD REPORT NOR KOREANS WILL APPARENTLY MAKE ANY FORECAST OF FUTURE DEBT SERVICE. WE SHOULD BE PREPARED TO POINT OUT THAT DEBT SERVICE RATIO IS RISING, AFTER FOUR-YEAR DECLINE, MAKING IT IMPORTANT ONCE AGAIN FOR ROKG AND IBRD TO FOLLOW SITUATION CLOSELY, INCLUDING ASSESSMENT IN NEXT IBRD ECONOMIC SURVEY OF LONGER-TERM KOREAN CAPACITY TO SERVICE FOREIGN BORROWING. SEE REF C FOR LATEST EMBASSY APPRAISAL, INCLUDING HEAVY INTEREST

BURDEN ARISING FROM SHORT-TERM BORROWING.

5. MEMBERSHIP: IN VIEW GROWING ECONOMIC COOPERATION
BETWEEN KOREA AND IRAN AND SAUDI ARABIA, INCLUDING
JUNE-JULY MINISTERIAL VISITS REPORTED REF D, AND THE
DEPUTY PRIME MINISTER'S STATEMENT PARA 3, REF E,
SUSSEST IBRD BE QUERIED RE POSSIBLE CG ATTENDANCE BY THESE
COUNTRIES,
PERHAPS AS OBSERVERS THIS YEAR WITH
OPTION OF BECOMING REGULAR FUTURE MEMBERS.
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